



OKLAHOMA STATE SENATE
ECONOMIC RESEARCH AND POLICY ANALYSIS STAFF

Economic Monitor

August 2001

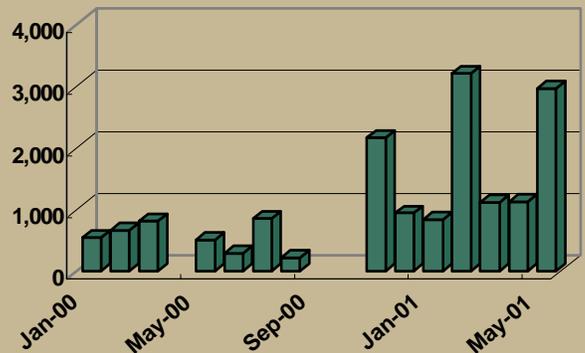
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Oklahoma Layoffs Increase as Economy Slows



Source: Bureau of Labor Statistics

New Bureau of Labor Statistics data indicates increased unemployment filings due to mass layoff events. For more about the state of the economy see Session Review on page 4.

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Oklahoma's State Employee Numbers Revised Down

The U.S. Census Bureau tracks Full Time Equivalent Employment (FTE) of state and local governments through a survey administered by each state. State and local FTE are combined to provide the best comparison among the states, because of the variation of how functions are distributed be-

between these two levels of government by individual states. The survey allows state and local governments to categorize employees based on their function. The function codes used by the Census range from correctional institution (02) to parks and recreation (61). It should be noted, discrepancies will be found in the FTE of certain functions per capita due to some variation in individual state interpretation of definitions, et cetera. However, for the most part these data provided by state and local governments and compiled by the U.S.

Census provide a relative snapshot, which can be used as a national and regional yardstick for FTE averages.

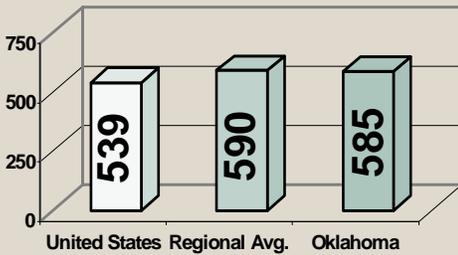
Oklahoma's state FTE data are submitted by the Office of State Finance to the U.S. Census Bureau. The Census then reviews and releases the FTE data for all state and local governments. The Office of State Finance recently submitted revised FTE data to the Census due to a previous over count of employees at the

state level causing the total FTE numbers for state workers to be off by more than 7,500. This data has yet to be certified by the Census Bureau, but appears to be the most accurate figures available to date. Figure 1 compares Oklahoma to the nation and our seven-state region using the corrected figures. The numbers for the nation, region, and state are pro-

vided in the following formula: number of FTE per 10,000 citizens, allowing the data to be viewed as relative to population. Figure 2 for example, illustrates the Social Insurance Administration's FTE as recorded under the Census function code 22. Oklahoma includes the State Insurance Fund, the Group Health Program, and the Employment Securities Commission under this code. Some agencies, such as the State Insurance Fund in Oklahoma, do not exist in all states. Other states may use local government agencies or private sector contractors to perform similar functions that would otherwise be the charge of state governmental agencies. Because of these variations the overall data may not provide an accurate comparison of regional and nationwide averages. **EM**

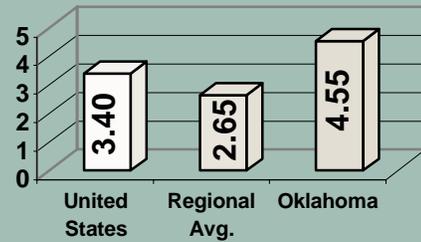
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Figure 1. Total State and Local FTE Per 10,000



Source: U.S. Census Bureau and Oklahoma Office of State Finance

Figure 2. Social Insurance Administration FTE Per 10,000



Source: U.S. Census Bureau and Oklahoma Office of State Finance

Poll Indicates Household Plans for Tax Rebate

According to a recent Gallup poll conducted on July 10-11, 2001, only 17% of Americans intend to directly stimulate the economy by spending their \$300-\$600 rebates. Over 47% percent plan to use this rebate to pay bills and 32% expect to save or invest it. The remaining 4% is equally divided between giving the money to charity or are unsure of how they will spend it.

While these numbers do cast some doubt as to how much the tax rebate will actually stimulate the economy, there is evidence from past polls that show that the answers given to pollsters may be quite different

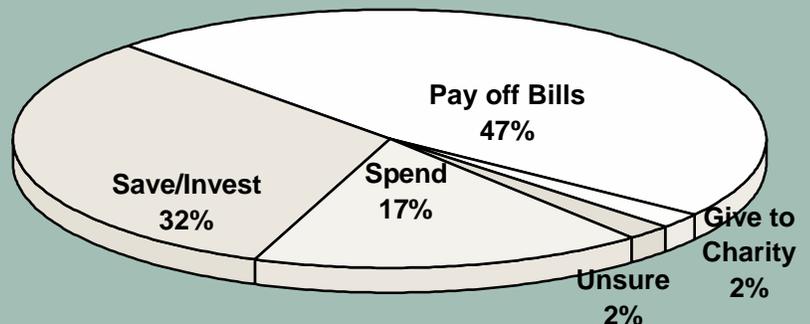
than the actions actually taken. Many times respondents will give an answer that they feel is more socially acceptable than actual intentions.

Further interpretation of these poll results could lead to the other possibility that once individuals have used their rebate to pay off bills or have invested the money, then they will in turn feel freer to spend other money on consumer products or services.

Thus the tax rebate could provide an indirect stimulus to the economy. No similar polls have been taken for the state tax reduction enacted this past session. **EM**

Source: The Gallop Organization; July 10-11 survey which included 998 adults

What People Expect To Do With Tax Rebate



The Phenomenon of High Technology Clusters & Economic Development

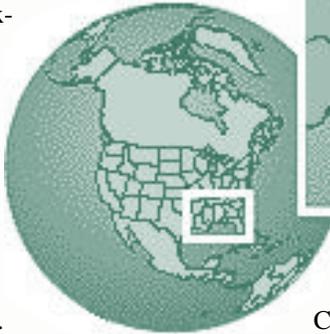
Chapter Two: Huntsville, Alabama: A Foundation Custom-Built by NASA

Huntsville, Alabama's economic development plan is typical of other emerging high-tech cities. A survey of the city's public policy indicators and incentives does not indicate anything extraordinary that would establish Huntsville as a leader in technological development.

The per capita state and local tax burden in Huntsville is below the national average and is slightly below Oklahoma. Huntsville ranks below the national cost of living average, and slightly higher than Oklahoma City or Tulsa. Given Huntsville's less than unique attributes the explanation for its success in technology development rests with their very highly educated workforce.

The EDGE (Excellence in Marketing, Development of Workforce, Growth in local Enterprise, Enhancement of Image) Plan implemented by the Huntsville/Madison County Chamber of Commerce seeks to provide quality and competitive growth all while investing in the quality of life. The EDGE plan has successfully worked to compliment Huntsville's existing workforce and the equal division between manufacturing

and service industries. The city's commitment to the EDGE plan has attracted leading technology companies such as United Technologies, SCI Systems, ADTRAN, Lockheed



Martin, SDI, IBM, and Alabama Super Computers.

This however would not be possible without the existing presence of a highly educated and qualified workforce already established in Huntsville. Federal investment in the NASA

Marshall Space Flights Center is the primary reason that one out of twelve residents in the Huntsville area is a Ph.D., scientist, engineer, or technologist.

Huntsville is home to more than 1,000 Ph.D.'s not affiliated with the area's colleges and universities. In addition, Huntsville is home to the University of Alabama in Huntsville, Alabama A&M University as well as six other universities and colleges. To capitalize on their educational prowess, the Chamber of Commerce of Huntsville/Madison County heads up the Alliance for Technology Transfer. This commit-

tee focuses on technology transfer and commercialization issues.

Newsweek magazine recently profiled Huntsville as one of their ten "high-tech havens", and *Expansion Management Magazine* listed Huntsville among the "Top 25 High Tech Cities." This survey, weighing factors such as high-tech job growth, high-tech job creation, annual average wages, and high-tech jobs vs. other private sector jobs, ranked Huntsville 3rd behind high-tech superpowers San Jose, California and Hartford, Connecticut. *Expansion Management* also included Huntsville among "America's 50 Hottest Cities" for business relocation and expansion with a ranking of 19. Huntsville's quality workforce played an essential role in this national recognition.

Typical steps to maintain and improve the quality of life such as investing in the greenbelt, building recreational trails, protecting sensitive mountain slopes and developing research parks are underway in Huntsville. Quality of life is one of the factors attracting high-tech business to Huntsville. A planning consultant hired by the Huntsville Times noted that Huntsville/Madison County "flunks the forward thinking test" and the "long-range planning is just not there." To preserve the quality of life in accord with development a more comprehensive plan will be required.

Huntsville owes much of its success to the federal government's investments in technology development.

City officials say that up to 85 percent of Huntsville's high-tech companies trace their origins to the Army or NASA. Venture capital investment has increased from \$2 million in 1999 to \$66 million in 2000. Job growth, also reflecting dramatic leaps in development, experienced a 100 percent increase between 1995 and 1999. The increase in industrial diversification in the private sector, and the federal government's continuation in the development of a highly skilled workforce promises a healthy future for this city.

The Huntsville model certainly presents some opportunities for cities, such as Lawton or Midwest City, to transform their military presence into economic growth. **EM**

"..the explanation for [Huntsville's] success in technology development rests with their very highly educated workforce."

The *Economic Monitor* is published by the Staff of the Oklahoma Senate Economic Research and Policy Analysis Division.

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2001 Oklahoma Legislative Session: An Economic Perspective

State Revenue Outlook:

While the revenues available for appropriation for FY 2002 were still forecast to be in excess of last year's and even more than estimated, the revenue outlook was not quite as bright as these statistics would indicate on their surface. May collections totaled \$359.9 million, which is 3.8% higher than last year and 3.5% above the estimate.

The slowing trend of the economy is highlighted by the fact that these surpluses grew ever more slightly than each month of the past fiscal year. For the FY'01, year revenues exceeded the estimate by 8.6% -- more than double the surplus percentage of May. Even more worrisome is the fact that in May only gross production tax collections significantly exceeded estimates. Other taxes such as income and sales, which are generally more attuned to the overall economy, had negative or flat growth. Motor vehicle tax collections were down by 23%.

The FY'02 budget was adopted with a 4.3% increase over the prior fiscal year. The total FY'02 budget is more than \$5.6 billion with the largest portion of the increased funding coming from \$200 million derived from gross production taxes on oil and gas.

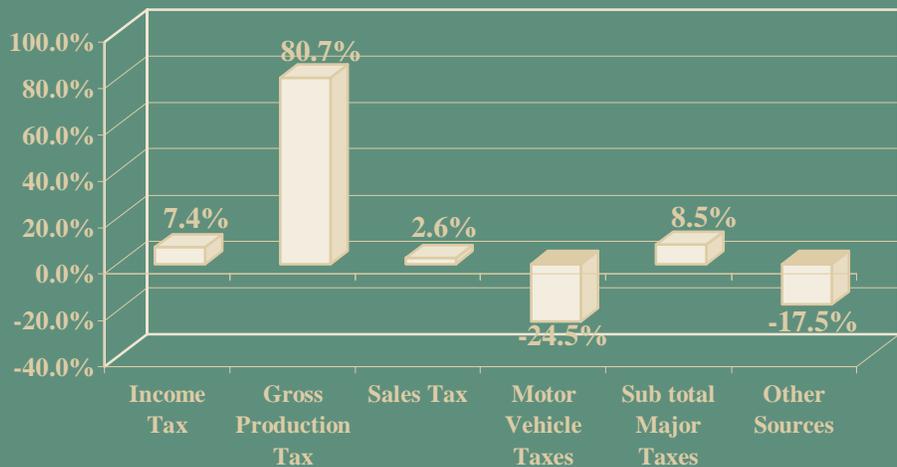
Some of the major expenditure categories for this year's budget include:

- \$14.7 for the 2001 Health Care Initiative;
- \$15.8 for payments for the Statewide Bond Issue;
- \$11.1 to restore losses of federal funds at the Department of Human Services, the Oklahoma Health Care Authority, and the Department

heating bills due to higher energy prices;

- \$420,000 to provide funding for stipends for teachers attaining National Board Certification;
- \$13.7 million to increase per-student allocation for textbooks from \$32 to \$55

May 2001 Revenue Comparison - Variance from Prior Year



Legislative Actions in 2001:

Oklahoma State Budget

- \$13.3 million for state employee pay increases;

ment of Mental Health and Substance Abuse.

Major Economic Legislation

With the national economy slowing significantly, the Oklahoma Legislature wound up the 2001 session by passing a number of pieces of legislation and a budget designed to stimulate long-term economic growth.

Tax Reductions

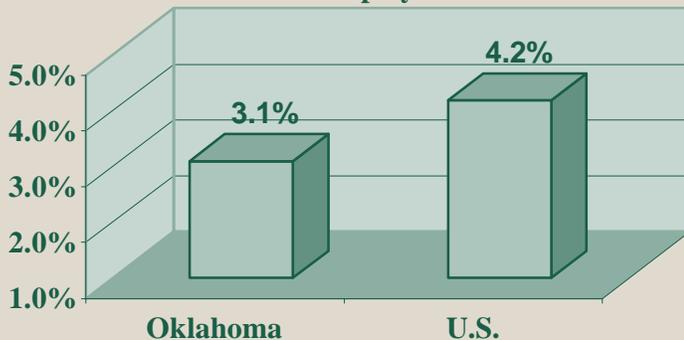
House Bill 1933 was the primary tax reduction vehicle passed this session. It contained \$46 million in income

Education Budget

Education is the largest expenditure category in Oklahoma's budget comprising more than 51% of total expenditures. Some of the key budget actions in this year's budget include:

- \$10 million to help schools pay increased

June 2001 Unemployment Rate



(Continued on page 5)

tax cuts within two provisions. First, an earned income tax credit (EITC) in the amount of 5% of the federal EITC, which increases with earnings and family size. The tax credit is expected to benefit between 250,000 and 300,000 income taxpayers with an average payment of \$80 annually. Secondly, the maximum individual income tax rate was lowered from 6.75% to 6.65%.

Motorists will immediately experience some relief as a result of the elimination of the motor vehicle inspection system. The annual \$5 inspection requirement terminated May 23, 2001.

Economic Development

After years of debate on the subject, SJR 1, which requires a special election on amending the state constitution for adoption of the issue commonly known as right-to-work, passed both the Senate and the House. The special election date was set for September 25, 2001.

SB 674 created the Compete with Canada Film Act and the Oklahoma Film Enhancement Rebate Program. Subject to the availability of funds, a rebate of 15% of documented expenditures made in Oklahoma attributable to the production of a long-form narrative film or television production may be paid to the production company if the Oklahoma Film Office determines that the project has a reasonable chance of economic success. The amount of all rebates paid may not exceed \$2 million in any single year.

The Quality Jobs Program Act was modified in SB 648 to refer to industries by the NAICS (North American In-

dustrial Classification System) codes rather than the SIC (Standard Industrial Classification) system. The Incentive Approval Committee is authorized to approve establishments that would have qualified under the SIC system that no longer qualify under the NAICS system.

Energy

Electric Utility deregulation was delayed at least another year with the passage of SB 440. This legislation removed the July 1, 2002 deadline for implementation of deregulation and established a new Electric Restructuring advisory Committee.

Education

Beginning with the 2001-02 academic year, SB 596 grants authority to the Oklahoma State Regents for Higher Education to increase tuition and fee rates annually through 2005-06. The annual increases are limited to 7% for resident tuition and 9% for nonresident tuition.

Redistricting

Concerns about population losses played into much economic policy in 2001. According to the 2000 Census figures Oklahoma counted 3,450,654 residents which represents a 9.7% increase over its 1990 Census. The Senate and the House used these new population figures to redistrict the legislative districts. Each body passed the redistricting proposals for both of the legislative houses. However, the legislature did not address the congressional redistricting in the 2001 regular session. The Governor has named that as an agenda item for this September's special legislative session. **EM**

Early Childhood Education – Facts and Figures from recent published research

- ◆ A recent study found that half of all entering kindergartners come from families with one or more risk factors – a mother with less than a high school education, a family receiving welfare or food stamps, a single-parent household or parents with a primary language other than English.
 - The presence of two or more of these risk factors is highly correlated with lower skill levels at kindergarten entry.
 - Two-thirds of children in large cities have one or more risk factors compared to about one-third in suburbs and small towns.
 - Nearly three-quarters of black or Hispanic kindergartners have one or more risk factors compared to 29% of white children (“Entering Kindergarten: A Portrait of American Children When They Begin School,” *The Condition of Education 2000*, National Center for Education Statistics, 2000).
- ◆ In a large-scale survey of kindergarten teachers, it was estimated that only 52% of their incoming students make the transition to kindergarten without difficulty. (National Center for Early Development and Learning, “Kindergarten Transitions,” NCELD Spotlights, 1998)
- ◆ Absenteeism due to breakdowns in childcare arrangements costs American businesses \$3 billion annually. Approximately 2,500 employers sponsor work-site childcare, and about 6,000 offer some form of work-family benefits (Pew Charitable Trusts; Kauffman Foundation and; Child Care Action Campaign, “Preparing the Workers of Tomorrow: A Report on Early Learning”).
- ◆ A study on cost, quality and outcomes found that 40% of infant/toddler programs were of poor enough quality to endanger health, safety and/or development; only 12% provided developmentally appropriate care. For child care of all ages, approximately 12% of centers are estimated to be of less than minimal quality, and only 14% are rated good. For family-based childcare, 34% of programs are rated poor and only 9% rated good (Cost, Quality and Outcomes Study Team, “Cost, Quality, and Child Outcomes in Child Care Centers,” University of Colorado, 1995, and Families and Work Institute, “The Study of Children in Family Child Care and Relative Care,” 1994). **EM**

Source: Education Commission of the States

Energy Remains Key in a Slowing Economy

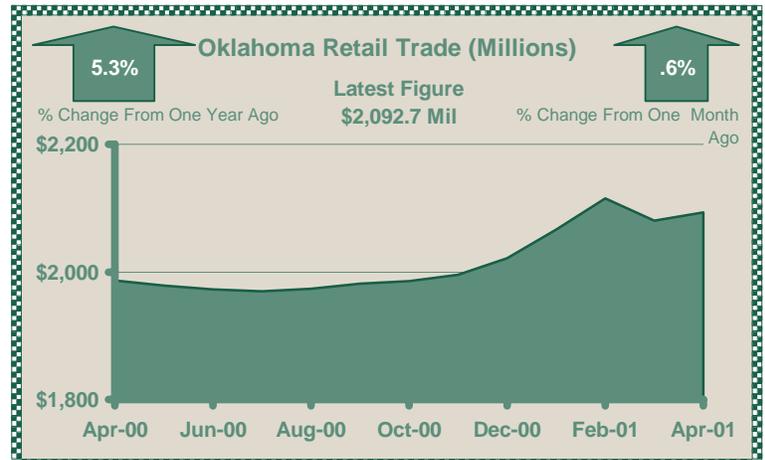
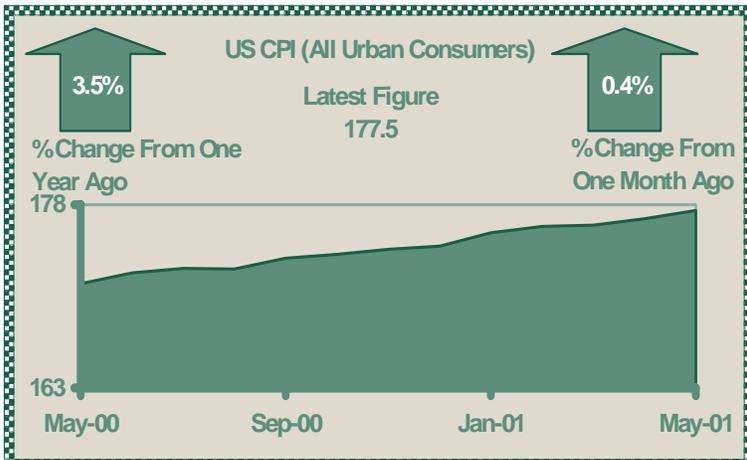
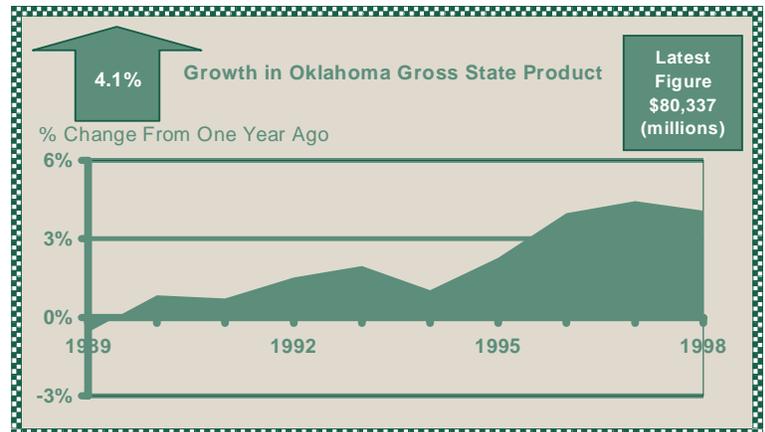
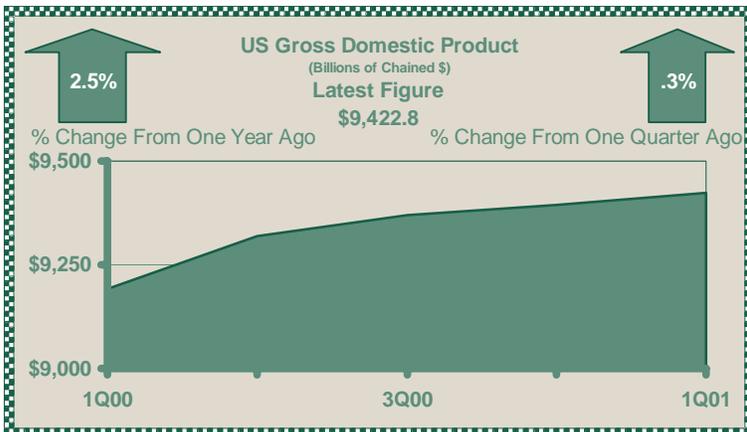
Higher world oil and gas prices kept the Oklahoma economy moving a little faster than the U.S. economy in general in the last quarter of the state's fiscal year. Despite layoffs at important Oklahoma telecommunications and networking employers such as Tulsa's WorldCom and Oklahoma City's Lucent plant and delays in construction of the Corning Fiber Optic manufacturing facility, the state's unemployment rate remained below the national average.

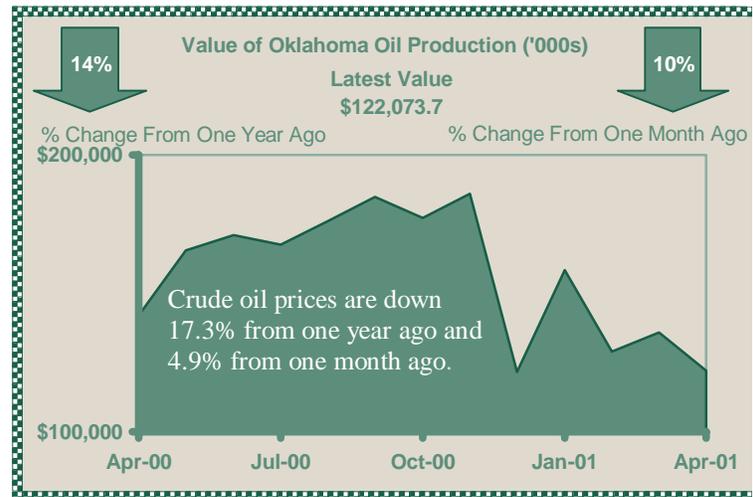
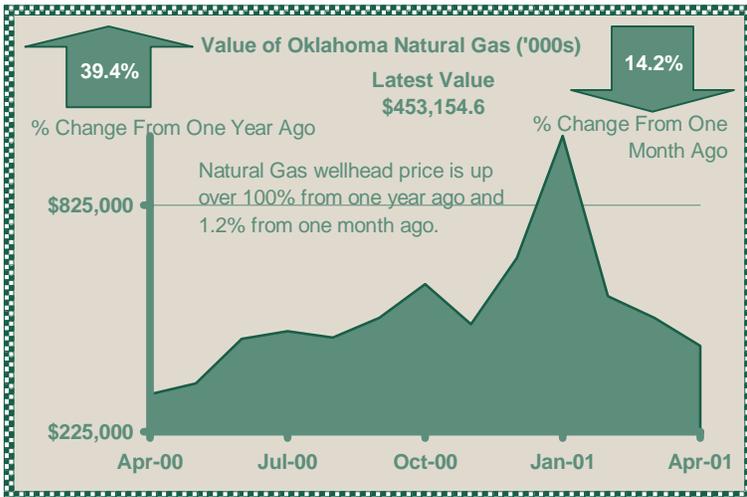
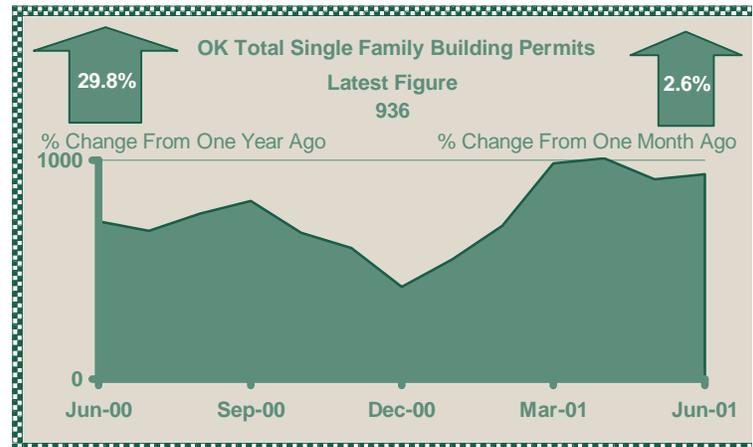
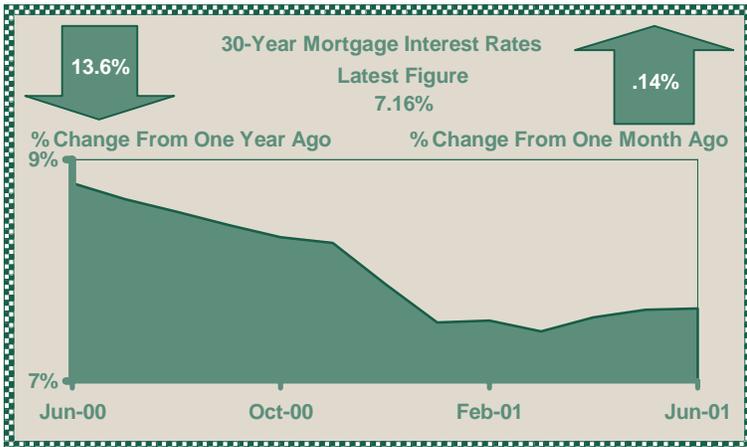
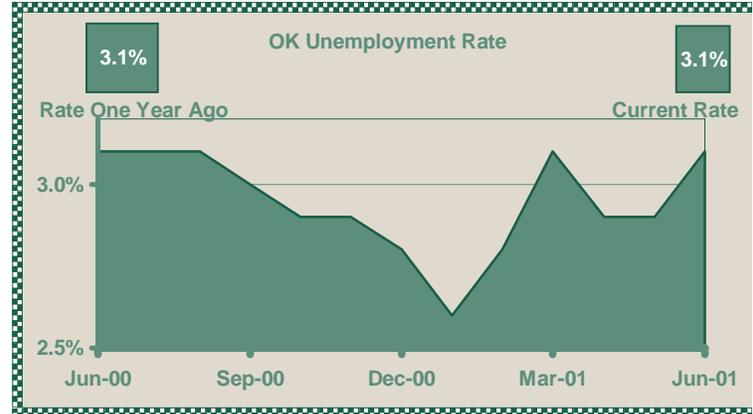
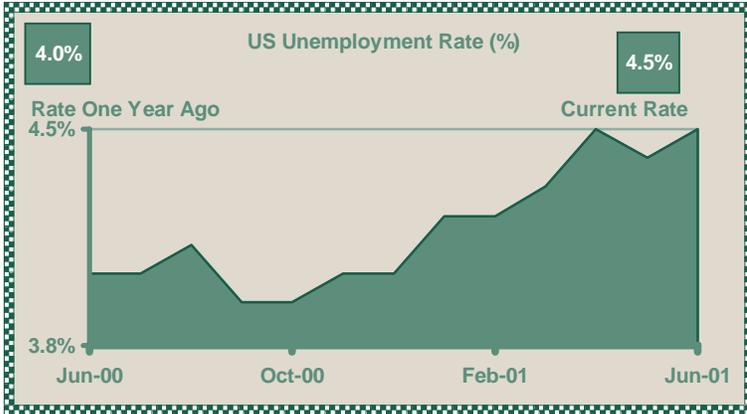
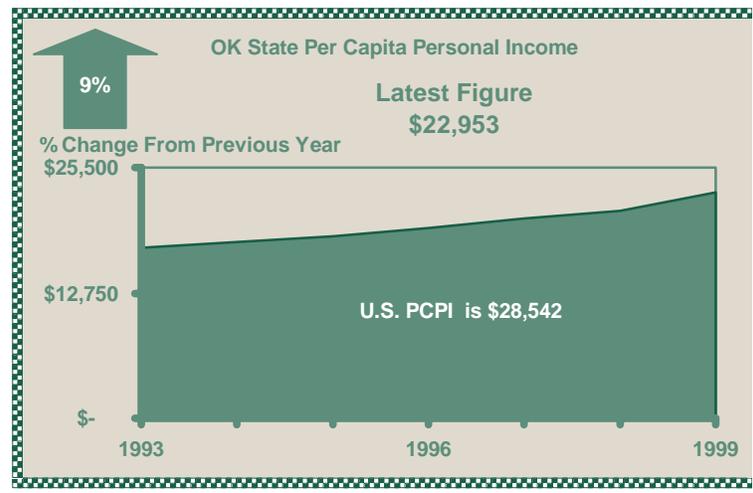
but is still well below the national average of more than 4.0%. This job strength was due almost entirely to the energy industry in the state. With high gasoline prices and natural gas prices still at near record levels, money poured into companies such as Williams' pipeline operations, Louis Dreyfus natural gas and Chesapeake Explorations. Old stalwarts such as Kerr-McGee are experiencing resurgence in earnings not seen in more than a decade. Still, growth was limited to this one sector.

Oklahoma's unemployment rate of 2.9% rose about .3% points since the first of the year

In the next Economic Monitor:

- Oklahoma's Place in the High Tech Market
- Technology Clusters: Chapter 3, Colorado Springs
- Turnpike Facts & Figures
- Revenue and Economic Outlook





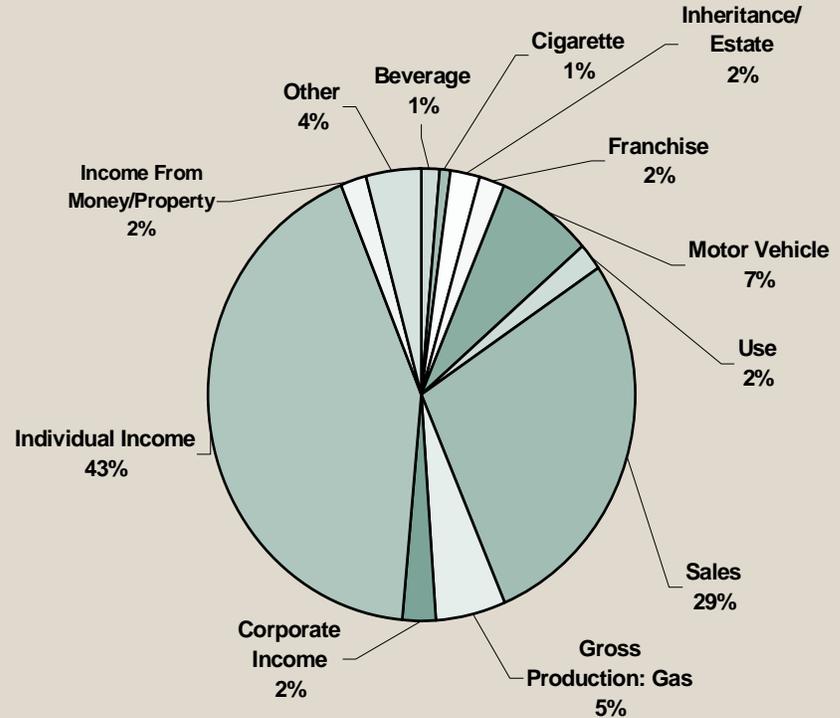
Despite a Slowing Economy, Overall State Revenue Collections Exceed Estimates

FY-2001 general fund collections finished the year a full five percent above their estimated targets, even with several categories coming in below estimates. Some of the more significant shortfalls include:

- Corporate income tax—coming in at \$30.3 million, or 19% below estimates;
- Motor vehicle tax—coming in at \$65.5 million, or 21% below estimates;
- Franchise tax—coming in at \$5.9 million, or 13% below estimates.

All of these deficiencies were bolstered by unexpected natural gas gross production revenue collections, which came in at an impressive 245 percent of their estimated values. This windfall of \$288.2 million covered the underperformance attributable to the aforementioned categories and contributed the bulk of the five-percentage point, or \$219.1 million, increase in total collections.

State Revenue Collections by Major Source: FY-2001



General Revenue Fund, as of July 17, 2001

Comparison with OSF Estimate and Prior Year Collections (\$ Millions)

Revenue Source	Column 1	Column 2	Col 2 / Col 1	Column 3	Col 2 / Col 3
	Actual Collections			Estimated Collections	
	FY-00 Y-T-D	FY-01 Y-T-D	FY-01 as % of FY-00	FY-01 Y-T-D	FY-01 as % of Estimate
TAXES:					
Income					
Individual	\$1,837.6	\$1,982.1	108%	\$1,943.9	102%
Corporate	\$153.3	\$132.0	86%	\$162.3	81%
Gross Production, Gas	\$245.1	\$486.3	198%	\$198.1	245%
Sales	\$1,163.1	\$1,240.6	107%	\$1,235.6	100%
Use	\$76.7	\$80.1	104%	\$75.3	106%
Motor Vehicle	\$304.7	\$244.9	80%	\$310.4	79%
Insurance Premium	\$58.5	\$48.0	82%	\$55.9	86%
Franchise	\$41.4	\$41.0	99%	\$46.9	87%
Inheritance/Estate	\$87.5	\$84.8	97%	\$87.2	97%
Cigarette	\$30.3	\$28.7	95%	\$26.7	107%
Beverage	\$23.7	\$23.3	98%	\$24.6	95%
Alcoholic Beverage	\$14.4	\$14.7	102%	\$15.0	98%
Mixed Beverage	\$14.9	\$15.9	107%	\$15.6	102%
Pari-Mutuel	\$4.1	\$3.7	90%	\$3.9	95%
Other	\$76.1	\$65.7	86%	\$81.7	80%
Subtotal: Taxes	\$4,131.4	\$4,491.8	109%	\$4,283.1	105%
Licences, Permits, & Fees	\$46.0	\$40.5	88%	\$49.8	81%
Income From Money/Property	\$106.5	\$121.8	114%	\$96.3	126%
Other Income	\$68.7	\$20.6	30%	\$25.3	81%
Continuing Collections	\$4,352.6	\$4,674.7	107%	\$4,454.5	105%
Transfers & Lapses	\$1.5	\$0.5	33%	\$1.6	-
Total Revenues	\$4,354.1	\$4,675.2	107%	\$4,456.1	105%